

DIRECT TESTIMONY OF

MICHAEL L. SEAMAN-HUYNH

ON BEHALF OF

THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF

DOCKET NO. 2020-4-G

IN RE: ANNUAL REVIEW OF PURCHASED GAS ADJUSTMENT AND

GAS PURCHASING POLICIES OF

PIEDMONT NATURAL GAS COMPANY, INC.

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Michael Seaman-Huynh. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the State of South Carolina as Deputy Director of Energy Operations at the Office of Regulatory Staff ("ORS").

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received my Bachelor of Arts from the University of South Carolina in 1997. Prior to my employment with ORS, I was employed as an energy analyst with a private consulting firm. I joined ORS in 2006 as an Electric Utilities Specialist and was promoted to Senior Electric Utilities Specialist in 2010. When the Energy Regulation Department was formed in August 2015, I assumed the position of Senior Regulatory Analyst. In May 2016, the Utility Rates and Services Division was formed, and I was promoted to the position of Senior Regulatory Manager. I assumed my current position in August of 2019.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA ("COMMISSION")?

A. Yes. I have previously testified before the Commission on numerous occasions.

Q. WHAT IS THE MISSION OF THE OFFICE OF REGULATORY STAFF?

A. ORS represents the public interest as defined by the South Carolina General Assembly as:

[T]he concerns of the using and consuming public with respect to public utility services, regardless of the class of customer, and preservation of continued investment in and maintenance of utility facilities so as to provide reliable and high-quality utility services.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to present ORS's findings regarding the review and examination of the purchasing policies of Piedmont Natural Gas Company, Inc. ("Piedmont" or "Company"), including the hedging program, and administration of the Commission-approved Gas Cost Recovery Mechanism ("GCRM") tariff during the twelve-month term of April 1, 2019 through March 31, 2020 ("Review Period") and Piedmont's capacity and supply capabilities for the upcoming winter.

Q. WAS THE REVIEW PERFORMED BY YOU OR UNDER YOUR SUPERVISION?

A. Yes. The review to which I testify was performed by me or under my supervision.

Q. PLEASE DISCUSS PIEDMONT'S PURCHASING PRACTICES.

A. Piedmont contracts with several interstate pipeline companies for transportation capacity, storage service, and liquefied natural gas ("LNG") peaking service. Piedmont also purchases commodity supply from producers and marketers to both meet the needs of its firm customers on a peak design day as well as to meet the annual usage requirements of all its customers.

Q. PLEASE DESCRIBE PIEDMONT'S CAPACITY AND SUPPLY CAPABILITIES FOR THE REVIEW PERIOD USING THE COMPANY'S UPDATED DESIGN DAY CALCULATION.

1 **A.** For the Carolinas, Piedmont had firm send out capacity capability available for the
2 FY2020 Firm Design Day. The capacity portfolio to meet this demand included firm
3 transportation contracts on the interstate gas pipeline systems of Transco, Columbia Gas,
4 and East Tennessee. Also, the Company had storage service available from Hardy Storage,
5 Dominion, Columbia Gas, and Transco. In addition, Piedmont had its two (2) LNG
6 peaking facilities located in Huntersville and Bentonville, North Carolina as well as
7 contracted LNG peaking service with Transco. These sources were available to inject
8 additional natural gas into its system, when needed, to balance supply with the Company's
9 system load requirements. Piedmont has a third LNG facility under construction in
10 Robeson County, North Carolina, anticipated to be completed in the summer of 2021.

11 Piedmont purchased gas supply under a diverse portfolio of contractual
12 arrangements with gas producers and marketers. Under the firm gas supply contracts,
13 Piedmont paid market-based commodity prices tied to indices published in nationally
14 recognized industry publications such as Platts Gas Daily Market Fundamentals. Piedmont
15 also purchased gas supplies in the spot market under contract terms of one month or less.

16 **Q. WERE PIEDMONT'S CONTRACTED CAPACITY AND SUPPLY**
17 **CAPABILITIES SUFFICIENT TO MEET THE REQUIREMENTS OF ITS FIRM**
18 **CUSTOMERS?**

19 **A.** Yes. For the Review Period, ORS's examination indicated the Company had
20 adequate firm assets, by way of capacity and supply contracts, to meet its firm customers'
21 requirements. ORS recommends that the Company continue to monitor its firm capacity
22 and supply capabilities, regarding future demand on the system as well as changes being
23 experienced in the natural gas industry.

Q. DID PIEDMONT PRUDENTLY PURCHASE GAS CAPACITY AND SUPPLY TO MEET THE REQUIREMENTS OF ITS CUSTOMERS?

A. Yes. The Company used what is called a “best cost” gas purchasing policy. This policy consists of five (5) main components: price, security, flexibility, supplier relations, and deliverability. These components are interrelated and weighted based on their importance. Piedmont has been active in purchasing supplies directly in the market and arranging through interstate pipelines for capacity required for the transportation, delivery, and storage of these supplies. Piedmont continues to secure reasonable contract terms through negotiations. Piedmont has been active in the Federal Energy Regulatory Commission (“FERC”) proceedings concerning interstate transportation and storage rate changes, as well as other issues concerning the FERC regulated interstate pipeline companies.

Q. WHAT ARE THE RESULTS OF PIEDMONT’S HEDGING PROGRAM FOR THE REVIEW PERIOD?

A. For the Review Period, the Company’s hedging program for South Carolina operations resulted in a net economic cost of \$867,024, as shown on ORS Witness Sullivan’s Audit Exhibit DFS-3, recorded in the Company’s deferred account. ORS determined that Piedmont operated its hedging activities in compliance with the Commission approved hedging program and has no recommendations to change the Company’s current hedging program.

Based upon ORS’s review and examination, ORS confirmed that the:

- 1) Percentage of volumes hedged was no greater than forty-five percent (45%) of annualized sales volumes;

- 2) Time period for which the hedges were purchased was no greater than twelve (12) months;
- 3) Hedging tool used was a call option;
- 4) Amount paid to purchase the options, referred to as the premiums, were no more than the plan's approved percentages of 4% to 6% of the applicable NYMEX futures price;
- 5) Strike price of the call options purchased were secured at the prevailing market prices or lower; [Note: The strike price is the price the option holder must pay to exercise the option.]
- 6) Costs of the hedging program were properly recorded; and,
- 7) Company filed monthly reports with the Commission and ORS providing the results of the hedging program.

Q. DID ORS REVIEW THE COMPANY'S FORECASTED FIRM DESIGN DAY REQUIREMENT FOR THE UPCOMING 2020-2021 WINTER SEASON AND THE COMPANY'S STEPS TO MEET THIS REQUIREMENT?

A. Yes. ORS reviewed and examined the Company's forecasted Firm Design Day requirement for the upcoming 2020-2021 winter season and the measures the Company is taking to ensure the reliability of the capacity and supplies. Piedmont has taken steps to secure firm capacity and supply for future demand on its system. These steps include contracting with interstate pipelines for capacity on their systems, acquiring storage capacity, enhancing their LNG capabilities, and negotiating contracts with suppliers. Upon review of projections of Piedmont's Carolinas Firm Design Day requirement and the assets

1 anticipated to be in place to satisfy this requirement, ORS finds Piedmont's plan for the
2 2020-2021 winter season to be reasonable.

3 Piedmont has an obligation to maintain adequate supplies at just and reasonable
4 costs to serve its customers. Based on our review of information provided by Piedmont,
5 ORS finds that the Company is prepared to meet its obligation. For future planning periods,
6 ORS recommends that the Company continue its practice of monitoring its firm
7 transportation, storage, supply and LNG capabilities based upon its forecasted firm demand
8 and continuing changes in the natural gas industry.

9 **Q. PLEASE DESCRIBE PIEDMONT'S APPROVED GCRM.**

10 **A.** Piedmont's GCRM is designed to permit the Company to recover the prudently
11 incurred actual cost of gas from its customers. The actual cost of gas consists of two (2)
12 components: a Demand cost of gas component and a Commodity cost of gas component.
13 The Demand component includes all capacity charges for the transportation and storage of
14 gas. The Commodity component is comprised of charges for the volumes of gas purchased.
15 The GCRM provides that Piedmont establish a Benchmark Commodity Cost of Gas which
16 is the Company's estimate or forecast of the City Gate Delivered Cost of Gas for gas
17 supplies, excluding Demand Charges. The GCRM provides for the recording of the
18 monthly differences between the actual cost of gas purchased and the rate billed to the
19 customer, to the Company's Deferred Account.

20 **Q. DOES PIEDMONT'S APPROVED GCRM ALLOW FOR ADJUSTMENTS TO**
21 **THE BENCHMARK COMMODITY COST OF GAS?**

22 **A.** Yes. The Benchmark Commodity Cost of Gas may be adjusted to recognize
23 changes in the billing factor for the amount to be recovered. These requests are filed with

the ORS for review and the Commission for approval. The GCRM also allows for the same type adjustment for the Demand Cost of Gas Component, although the Demand Component does not change as frequently as the Commodity Cost of Gas Component.

Q. WHAT IS THE CURRENT BENCHMARK COST OF GAS INCLUDED IN THE COMPANY'S RATES?

A. The current Benchmark Commodity Cost of Gas, GCRM-151, included in the Company's rates is \$2.00 per dekatherm, which became effective with the first billing cycle of January 2020. ORS does not recommend any change to the Benchmark Commodity Cost of Gas.

Q. DID THE COMPANY ADMINISTER ITS GCRM DURING THE REVIEW PERIOD IN ACCORDANCE WITH THE COMMISSION APPROVED TARIFF?

A. Yes.

Q. WILL YOU UPDATE YOUR DIRECT TESTIMONY BASED ON INFORMATION THAT BECOMES AVAILABLE?

A. Yes. ORS reserves the right to revise its recommendations via supplemental testimony should new information not previously provided by the Company, or other sources become available.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.